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BLOCKBUSTER INC.

14  
15 UNITED STATES DISTRICT COURT  
16 NORTHERN DISTRICT OF CALIFORNIA

17 NETFLIX, INC., a Delaware corporation,

Case No. C 06 2361 WHA (JCS)

18 Plaintiff,

[CORRECTED] STIPULATION AND  
[PROPOSED] ORDER REGARDING  
DISCOVERY DISPUTES

19 v.

20 BLOCKBUSTER, INC., a Delaware  
corporation, DOES 1-50,

Hearing Date: Jan. 12, 2007  
Time: 9:30 A.M.  
Courtroom: A, 15th Floor  
Magistrate Judge: Joseph C. Spero

21 Defendant.

22  
23 AND RELATED COUNTERCLAIMS

Complaint Filed: April 4, 2006

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1 Plaintiff and Counter-Defendant, Netflix, Inc., and Defendant and  
 2 Counterclaimant, Blockbuster Inc., through their respective counsel of record, hereby stipulate  
 3 and agree as follow:

4 **I. BACKGROUND**

5 **A. Efforts at Out-of-Court Resolution**

6 1. On November 3, 2006, Netflix filed a motion to compel further responses  
 7 from Blockbuster to Netflix's First Set of Requests for Production and a motion for a protective  
 8 order as to certain Blockbuster document subpoenas to third-parties, and, on the same date  
 9 Blockbuster filed a motion to compel further responses from Netflix to Blockbuster's First Set of  
 10 Requests for Production. (These three motions are collectively referred to hereafter as the  
 11 "Subject Motions.") The Subject Motions are currently scheduled for hearing on January 12,  
 12 2007.

13 2. In addition to meeting and conferring in person and by telephone prior to  
 14 the filing of the Subject Motions, counsel for Netflix and Blockbuster conferred about them  
 15 further, in person, on November 15 and December 8, 2006. The conferences on November 15  
 16 and December 8 were attended by Jeffrey R. Chanin and Eugene Paige of Keker & Van Nest  
 17 LLP, counsel for Netflix, and by Marshall B. Grossman and William J. O'Brien of Alschuler  
 18 Grossman Stein & Kahan LLP, counsel for Blockbuster.

19 3. During the course of the November 15 and December 8 conferences,  
 20 counsel made strenuous efforts to resolve the numerous points of contention in the Subject  
 21 Motions. They have succeeded in resolving the large majority of those issues, as is reflected in  
 22 Sections II-IV of this Stipulation. Sections II-IV list issues on which the parties have reached  
 23 agreement and which no longer require the attention of the Court. Section V of this Stipulation  
 24 lists the only remaining issues as to the Subject Motions.

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1           **B. Conditions of Stipulation**

2           4. In order to facilitate compromise on the Subject Motions, Netflix and  
 3 Blockbuster have agreed that the compromises reflected in Sections II-IV of this stipulation will  
 4 not prejudice or in any way limit the ability of either side to request discovery in the future,  
 5 whether from each other or from third parties. The parties' agreements in this Stipulation to  
 6 limit certain discovery requests, to forego certain discovery, and to accept certain responses as  
 7 sufficient shall not be used as bases for objecting to any future requests for the same or similar  
 8 discovery, nor to argue against the discoverability of such matters in the event of any future  
 9 request.

10          5. Additionally, a party's agreement in this Stipulation to produce certain  
 11 documents or tangible things (collectively, "documents") shall not be construed as a  
 12 representation or admission concerning the existence of any such document or of the party's  
 13 possession, custody, or control of any such document. Instead, any provision in this Stipulation  
 14 requiring production of documents shall be interpreted as requiring that the party in question  
 15 diligently search for such documents and produce all such documents that are found as a result of  
 16 such a search, subject to objections based on attorney-client privilege or work-product protection  
 17 and subject to each party's right to designate information as "Confidential" or "Confidential –  
 18 Attorneys' Eyes Only" under the Protective Order in this case.

19          6. Notwithstanding any provision of this Stipulation to the contrary, each  
 20 party reserves all rights that it may have to withhold documents based on the attorney-client  
 21 privilege or attorney work-product protection. No provision of Sections II-V of this Stipulation  
 22 shall be construed as waiving or limiting a party's ability to object or withhold documents based  
 23 on attorney-client privilege or attorney work-product protection.

24          **II. AGREEMENTS ON BLOCKBUSTER'S MOTION TO COMPEL**

25          7. Subject to the conditions set forth in Section I B of this Stipulation,  
 26 Blockbuster and Netflix have reached agreement as set forth in Sections II-IV below on each of  
 27 the Subject Motions.

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1           8. In response to Blockbuster's Requests for Production Nos. 3-5, 10-16, 46-  
2 49, and 52-54, Netflix has agreed to produce, and Blockbuster has agreed to accept:

3               a. The following documents from the prosecution histories of Netflix  
4 patent applications other than for the Netflix patents-in-suit:

5                   (1) All references to or discussions of any matter that is prior  
6 art to the patents-in-suit, including any Information Disclosure Statements  
7 submitted by or on behalf of the applicant(s) that list any matter published, in use,  
8 or on sale before April 28, 2000, and any citations by the Patent Office of any  
9 prior art published, in use, or on sale before April 28, 2000;

10                  (2) All descriptions of any mode by which Netflix practiced  
11 the steps claimed in the patents-in-suit prior to April 28, 2000; and

12                  (3) All descriptions of modes considered by Netflix prior to  
13 April 28, 2000, for practicing any of the steps claimed in the patents-in-suit;

14               b. All documents constituting, recording, referring to, or evidencing  
15 COMMUNICATIONS between W. Reed Hastings and Edward Stead concerning any  
16 SUBJECT PATENT or APPLICATION, with each of the foregoing terms that appears in  
17 all capital letters having the definition stated in Blockbuster's First Set of Requests for  
18 Production;

19               c. All documents constituting, recording, referring to, or evidencing  
20 COMMUNICATIONS between NETFLIX and BLOCKBUSTER concerning any  
21 SUBJECT PATENT or APPLICATION, with each of the foregoing terms that appears in  
22 all capital letters having the definition stated in Blockbuster's First Set of Requests for  
23 Production;

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1                   d.       All documents constituting, recording, referring to, or evidencing  
2                   COMMUNICATIONS concerning any patent rights, patent license, or patent  
3                   infringement related to Blockbuster Online, with each of the foregoing terms that appears  
4                   in all capital letters having the definitions set forth in Blockbuster's First Set of Requests  
5                   for Production;

6                   e.       All documents referring or relating to any communication from a  
7                   third party that accused Netflix of infringement of a patent that predates April 2000 or  
8                   that invited Netflix to license any such patent;

9                   f.       All documents referring or relating to any instance in which  
10                  Netflix has requested that another person or entity take a license to any of Netflix's  
11                  patents; and

12                  g.       All documents that show any consideration or discussion of  
13                  whether any information about prior art should be, should not be, should have been or  
14                  should not have been submitted to the Patent and Trademark Office.

15                  9.       In response to Blockbuster's Requests for Production Nos. 24-26, 128 and  
16                  129, Netflix has agreed to produce, and Blockbuster has agreed to accept, all documents  
17                  referring or relating to any variation in the speed or priority of fulfilling a customer's rental  
18                  request based, in whole or in part, in the number or frequency of items rented by the customer,  
19                  insofar as such documents either existed prior to April 28, 2000, or refer or relate to such a  
20                  practice that existed prior to April 28, 2000.

21                  10.      In response to Blockbuster's Requests for Production Nos. 130-32, Netflix  
22                  has agreed to produce, and Blockbuster has agreed to accept, all documents that relate to  
23                  preferential sorting or handling of any mail to or from Netflix by the United States Postal Service  
24                  prior to April 28, 2000.

25                  11.      In response to Blockbuster's Requests for Production Nos. 32, 34-36, 55-  
26                  57, 67-71, 73-74, 78-81, 86, 88-90, 93-100, 105, 113-117, and 119, Netflix has agreed to  
27                  produce, and Blockbuster has agreed to accept:

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- 1                   a.       All documents that Netflix has previously committed to produce in  
2                   its responses to Blockbuster's Requests;
- 3                   b.       Documents sufficient to fully describe any disclosure, practice, or  
4                   use, prior to April 28, 1999, of any online rental of movies (as the term "movies" is used  
5                   in U.S. Patent No. 7,024,381);
- 6                   c.       Documents sufficient to fully describe any disclosure, practice, or  
7                   use, before April 28, 1999, of any rental of anything using what the patents-in-suit refer  
8                   to as "Max Out" (including any arrangement limiting the number of items a customer  
9                   can have rented at a time) or what the patents-in-suit refer to as "Max Turns" (including  
10                  any arrangement that limits the number of items that a customer can exchange during a  
11                  period of time);
- 12                  d.       Documents sufficient to fully describe any disclosure, practice, or  
13                  use of delivery of movies by mail before Netflix began its original business;
- 14                  e.       Documents sufficient to fully describe any disclosure, practice, or  
15                  use of delivery of audio or video discs by mail before Netflix began its original business;  
16                  and
- 17                  f.       Documents sufficient to fully describe any disclosure, practice, or  
18                  use of rental of DVDs before Netflix began its original business.

### 19                  **III. AGREEMENTS ON NETFLIX'S MOTION TO COMPEL**

20                  12.      In response to Netflix's Requests for Production Nos. 34-36, Blockbuster  
21                  has agreed to produce, and Netflix has agreed to accept, Blockbuster's agreements with  
22                  consultants for the development of each version of Blockbuster Online, as well as any  
23                  modifications to and correspondence discussing those agreements; any lists naming consultant  
24                  personnel who worked on the development of each version of Blockbuster Online; all documents  
25                  exchanged with consultants in connection with the development of each version of Blockbuster  
26                  Online; and all market research documents relating to Blockbuster Online up until June 30, 2006.  
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1           13. In response to Netflix's Requests for Production Nos. 26 and 27,  
2 Blockbuster has agreed to produce, and Netflix has agreed to accept, documents sufficient to  
3 fully describe the computer hardware and software used for Blockbuster Online, including  
4 computer hardware and software used for Blockbuster Online's distribution centers. Blockbuster  
5 shall not be required to produce documents related to common business software (for example,  
6 Microsoft Office or Adobe Acrobat) or individualized documentation such as invoices or  
7 packing lists for specific computers or components.

8           14. In response to Netflix's Request for Production No. 31, Blockbuster has  
9 agreed to produce, and Netflix has agreed to accept, documents sufficient to describe computer  
10 or Web technology, software, or hardware that was developed by third parties that implements or  
11 assists in the implementation of any of the steps performed in the claims of Netflix's patents, as  
12 well as the terms of any license agreements and amounts paid by Blockbuster for the right to use  
13 that technology. For purposes of the claimed steps relating to delivery by mail, this means  
14 computer or Web software, hardware or technology that implements or assists in the  
15 implementation of placing DVDs into envelopes intended for delivery by mail or of sorting,  
16 assembling, or transporting such envelopes up to the time they leave a Blockbuster distribution  
17 center. Blockbuster shall not be required to produce documents related to common business  
18 software (for example, Microsoft Office or Adobe Acrobat) or individualized documentation  
19 such as invoices or packing lists for specific computers or components.

20           15. In response to Netflix's Request for Production No. 19, Blockbuster has  
21 agreed to produce, and Netflix has agreed to accept, documents sufficient to show the manner in  
22 which Blockbuster accounts for Blockbuster Online.

23           16. In response to Netflix's Request for Production No. 89, Blockbuster has  
24 agreed to produce, and Netflix has agreed to accept, exemplars of in-store promotions of  
25 Blockbuster Online, as well as all documents reflecting internal discussions of how Blockbuster  
26 Online will affect Blockbuster's in-store business.

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1           17. In response to Netflix's Requests for Production Nos. 7-10, 21, 24-25, 28-  
 2 36, 58-59, 67-74, 76-79, 81-82, 90, and 101-102, Blockbuster has agreed to provide revised  
 3 statements of the documents that it is committing to produce in response to Netflix's requests,  
 4 and such revised statements will not include the limitation that the documents to be produced are  
 5 what Blockbuster considers to be "sufficient to reasonably describe."

6 **IV. AGREEMENTS ON NETFLIX'S MOTION FOR A PROTECTIVE ORDER**

7           A. **Subpoenas to NBC Universal, Yahoo!, Sony Pictures, Paramount Pictures,**  
 8 **The Walt Disney Company, Warner Bros., Best Buy, Fox Entertainment,**  
**AOL, and Microsoft (collectively, the "Studio and Internet Subpoenas")**

9           18. Netflix moved for a protective order regarding Categories 1, 2, 4, 5, 8, 9,  
 10 16 and 17 of the Studio and Internet Subpoenas. Blockbuster agrees to limit those enumerated  
 11 categories as is set forth below, and Netflix withdraws its motion for a protective order with  
 12 regard to those categories as so limited, based on Blockbuster's agreement that it will seek  
 13 discovery of such enumerated categories of documents from Netflix first.

14           19. Should Blockbuster issue document requests to Netflix seeking the  
 15 documents referred to in, and as limited by, this Section IV that have been sent to any of the  
 16 third-party recipients of the Studio and Internet Subpoenas (collectively, the "Subpoena  
 17 Recipients"), Netflix will respond by producing responsive documents sent to the Subpoena  
 18 Recipients, together with a declaration under penalty of perjury from a Netflix representative  
 19 stating that Netflix has made inquiry of the persons who would have had communications with  
 20 the Subpoena Recipient as to the existence, identity, and location, if any, of the documents  
 21 Netflix has provided to the Subpoena Recipient. The declaration shall identify (by production  
 22 serial number if applicable) the responsive documents that were determined, after a reasonable  
 23 search, to have been provided by Netflix to the Subpoena Recipient. Blockbuster may thereafter  
 24 show those documents to the applicable Subpoena Recipient and inquire as to whether the  
 25 Subpoena Recipient obtained any other responsive documents referred to in, and as limited by,  
 26 this Section IV from Netflix.

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1           20. Netflix shall not object to or seek a protective order or other bar or  
2 limitation with respect to Blockbuster's discovery from any Subpoena Recipient of documents  
3 referred to in this Section IV that have not been produced to Blockbuster by Netflix and  
4 identified in a declaration as provided above, except on grounds, if any exist, that the discovery  
5 would violate attorney-client privilege or work-product protection.

6           21. Categories 1 and 2 of the Studio and Internet Subpoenas are limited to  
7 DOCUMENTS (as that term is defined in the subpoenas) that refer, in whole or in part, to  
8 Netflix's online DVD rental service. The phrase "financial statements" shall mean income  
9 statements, balance sheets, statements of retained earnings, and statements of changes in  
10 financial position.

11           22. The phrase "NETFLIX PATENTS AND APPLICATIONS or any  
12 intellectual property owned or claimed by Netflix," as used in Category 4 of the Studio and  
13 Internet Subpoenas, is limited to mean:

14           a. The patents-in-suit in this case, U.S. Patents Nos. 6,584,450 and  
15 7,024,381;

16           b. The applications that resulted in the patents-in-suit, U.S. Patent  
17 Applications Serial Nos. 09/561,041 and 10/438,727 (collectively, the "Subject  
18 Applications");

19           c. Any United States, foreign, or international patent application that  
20 claimed priority of either of the Subject Applications or any application from which  
21 either of the Subject Applications claims priority; and

22           d. Any Netflix patent or application that is referred to in a document  
23 but is not specifically identified in a document.

24           23. Category 5 of the Studio and Internet Subpoenas is limited as follows:

25           a. Category 5 is limited to documents received or dated on or before  
26 April 28, 2000; and

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1                   b.         The phrase “any online rental service,” as used in Category 5, is  
2                   limited to any online subscription rental service.

3           24. Categories 8 and 9 of the Studio and Internet Subpoenas are limited to  
4 documents and communications that evidence, reflect, or refer to:

5                   a.       Any use by Netflix before April 28, 1999, of one or more matters  
6                   identified in Categories 8 and 9; or

7                   b. Any knowledge by Netflix at any time up through April 4, 2006, of  
8 any disclosure or use of one or more matters identified in Categories 8 and 9 that  
9 occurred prior to April 28, 1999.

## **V. REMAINING ISSUES FOR DECISION**

11           25. The only issues raised by the Subject Motions that remain for decision by  
12 the Court are as follows:

13                   a.         The portion of Netflix's motion for a protective order directed to  
14                   Categories Nos. 16 and 17 of the Studio and Internet Subpoenas; and

17        26. The parties respectfully request that the Court proceed to decide these  
18 remaining issues according to the following procedure:

19                   a.         The parties will submit a joint letter setting forth their respective  
20                   positions on each of the issues no later than January 5, 2007, and

1                   b.         The parties respectfully request that the Court conduct a hearing on  
2                   these issues on the presently scheduled hearing date of January 12, 2007, at 9:30 a.m.

3                   Dated: December 19, 2006                   KEKER & VAN NEST, LLP  
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6                   By: \_\_\_\_\_ /S/  
7                   Eugene M. Paige  
8                   Attorneys for Plaintiff and Counterclaim Defendant,  
9                   NETFLIX, INC.

10                  Dated: December 19, 2006                   ALSCHULER GROSSMAN STEIN & KAHAN LLP  
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12                  By: \_\_\_\_\_ /S/  
13                  William J. O'Brien  
14                  Attorneys for Defendant and Counterclaimant,  
15                  BLOCKBUSTER INC.

16                  **PURSUANT TO STIPULATION, IT IS SO ORDERED.**

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18                  Dated: December 20, 2006



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